

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Charter Township of Harrison</u>	County Macomb
Audit Date December 31, 2003	Opinion Date May 14, 2004	Date Accountant Report Submitted To State: June 18, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 10 South Main Street, Suite 200	City Mount Clemens	State MI	ZIP 48043
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **Charter Township of Harrison, Michigan**

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## **Financial Report with Supplemental Information December 31, 2003**

# Charter Township of Harrison, Michigan

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# Charter Township of Harrison, Michigan

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## Independent Auditor's Report

To the Board of Trustees  
Charter Township of Harrison, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Harrison, Michigan as of and for the year ended December 31, 2003, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Harrison, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Harrison, Michigan as of December 31, 2003 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, pension system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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A worldwide association of independent accounting firms

To the Board of Trustees  
Charter Township of Harrison, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Harrison, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note I, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of January 1, 2003.

*Plante & Moran, PLLC*

May 14, 2004

# **Charter Township of Harrison, Michigan**

## **Management's Discussion and Analysis**

As management of the Charter Township of Harrison, Michigan (the "Township"), we offer readers of the Township's financial statements this narrative overview and analysis of the Township's financial activities for the fiscal year ended December 31, 2003. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the Township's financial statements.

### **Financial Highlights**

In this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2003:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$172,000 this year. The Township reacted to this reduction by eliminating the parks and recreation department and all cable department employees. In addition to these eliminations, the Township also did not fill vacant positions through attrition; these changes resulted in a fund balance increase of approximately \$100,000 in the General Fund.
- Total net assets related to the Township's governmental activities decreased by approximately \$318,000.

### **Using this Annual Report**

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplemental information to provide greater detail of data presented in the basic financial statements.

Government-wide financial statements are designed to provide readers with a broad long-term overview of the Township's finances, in a manner similar to a private-sector business. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The statement of net assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Township is improving or deteriorating.

The statement of activities presents information showing how the Township's net assets changed during the year ended December 31, 2003. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

# Charter Township of Harrison, Michigan

## Management's Discussion and Analysis (Continued)

**Fund Financial Statements** - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: (a) governmental funds, (b) proprietary funds, and (c) fiduciary funds.

These fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. Such information is useful in evaluating the Township's near-term financing requirements.

- (a) **Governmental Funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.
- (b) **Proprietary Funds** - The Township maintains one type of proprietary fund. Enterprise funds are used to report the same function presented as business-type activities in the government-wide financial statements. The Township uses enterprise funds to account for its sewer collection and water distribution. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.
- (c) **Fiduciary Funds** - The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the Financial Statements** - The notes which follow the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Information concerning the Township's progress in funding its obligations to provide pension benefits to its employees is included in the notes to the financial statements.



# Charter Township of Harrison, Michigan

## Management's Discussion and Analysis (Continued)

### The Township as a Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

The following table shows, in a condensed format, the net assets as of December 31, 2003 (in thousands of dollars). Prior year information is not available because this is the first year of the implementation of GASB Statement No. 34. Comparative data will be presented in future years.

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets	\$ 9,968	\$ 6,097	\$ 16,065
Noncurrent assets	<u>3,772</u>	<u>22,068</u>	<u>25,840</u>
Total assets	13,740	28,165	41,905
<b>Liabilities</b>			
Current liabilities	6,420	1,308	7,728
Long-term liabilities	<u>2,358</u>	<u>-</u>	<u>2,358</u>
Total liabilities	<u>8,778</u>	<u>1,308</u>	<u>10,086</u>
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	1,940	22,068	24,008
Restricted	2,292	-	2,292
Unrestricted (deficit)	<u>730</u>	<u>4,789</u>	<u>5,519</u>
Total net assets	<u><u>\$ 4,962</u></u>	<u><u>\$ 26,857</u></u>	<u><u>\$ 31,819</u></u>

The Township's assets are divided into two categories: business-type activities and governmental-type activities. The combined net assets of the Township increased 4 percent from a year ago - increasing from \$30.6 million to \$31.8 million. The business-type activities showed an increase of \$1.5 million in net assets, which equates to 6.1 percent. This increase resulted from contributions of water and sewer lines by developers. Governmental activities, however, decreased 6 percent during fiscal 2003, which amounted to \$318,000. Uncollectible ambulance fees in the Fire Fund and decreases in state revenue sharing account for this decrease.

# Charter Township of Harrison, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year (in thousands of dollars). Prior year information is not available because this is the first year of the implementation of GASB Statement No. 34. Comparative data will be presented in future years.

	Governmental Activities	Business-type Activities	Total
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 965	\$ 5,073	\$ 6,038
Operating grants and contributions	180	514	694
Capital grants and contributions	270	1,216	1,486
General revenue:			
Property taxes	4,652	-	4,652
State-shared revenue	2,069	-	2,069
Unrestricted investment earnings	125	59	184
Franchise fees	255	-	255
Miscellaneous	66	65	131
Total revenue	8,582	6,927	15,509
<b>Program Expenses</b>			
General government	2,396	-	2,396
Public safety	6,178	-	6,178
Public works	42	-	42
Community and economic development	119	-	119
Recreation and culture	91	-	91
Interest on long-term debt	79	-	79
Water and sewer	-	5,410	5,410
Total program expenses	8,905	5,410	14,315
<b>Change in Net Assets</b>	<b>\$ (323)</b>	<b>\$ 1,517</b>	<b>\$ 1,194</b>

### Governmental Activities

The Township's total governmental revenues were approximately \$8.6 million despite decreases in state-shared revenue and interest income. The Township's total governmental expenditures were approximately \$8.9 million. Increases were led by large increases in health care cost, bad debt expense, actuarially determined pension contributions, and property insurance rates. To offset this, the Township closely monitored its spending in all other areas, including leaving positions unfilled through attrition, reducing training and overtime, eliminating the parks and recreation department, and eliminating all employees related to the cable department.

# **Charter Township of Harrison, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Business-type Activities**

The Township's business-type activities consist of the Water and Sewer Fund. We operate a water distribution system providing water to customers from the Detroit and Mount Clemens water supplies. We also maintain a sewer collection system which is connected to the Detroit Sewage disposal network. The Township has not increased water rates since 1997. In addition, the department expanded the sewer collection system to provide service to areas of the Township that were previously on private systems. This includes areas such as sections of South River Road, Erie, Clintonshore, Clintonview, Waterford, Hearne, Hazel, Sylvia, and Duluth streets.

### **The Township's Funds**

Our analysis of the Township's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2003 include the General Fund, the Fire Fund, the Police Fund, and the Building and Site Fund.

The General Fund accounts for most of the Township's governmental services. The most significant are assessing and treasury departments, which incurred expenses of approximately \$488,000 and \$387,000, respectively, in 2003. Fire and police services are supported primarily through special millages that are recorded in the respective funds. The Fire and Police funds recorded the receipt of approximately \$3.9 million and \$685,000, respectively, from these millages in the current year.

### **General Fund Budgetary Highlights**

Over the course of the year, the Township amended the budget to take into account events during the year. The most significant change was to decrease the state-shared revenue budget by approximately \$262,000 and to decrease revenue from property taxes by \$284,000. There were decreases across many of the expenditure categories, the most significant being the elimination of the parks and recreation department.

### **Capital Asset and Debt Administration**

At the end of 2003, the Township had \$25.8 million invested in a broad range of capital assets, including buildings, fire equipment, and water and sewer lines. The Township has invested significantly in the water and sewer lines within the Township during the year, including approximately \$2.1 million included in construction in progress at the end of the year. The Township also invested approximately \$968,000 in the construction of a new fire station that was nearly complete at the end of the fiscal year and will be operational in 2004.

# **Charter Township of Harrison, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budgets and Rates**

Because of the impact of Proposal A and the Headlee Amendment, the Township must continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions.

The Township's budget for 2004 does not restore the parks and recreation department, and includes pay freezes for the AFSCME Union, Fire Fighter's Union, and elected officials. The budget also limits the amount of calcium chloride treatments for Township dirt roads.

This budget also allows the Township to begin funding retiree health care and depreciation of assets used by the general governmental activities.

As discussed above, water rates have not increased since 1997. We anticipate that the water rates will have to increase somewhat in 2004. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2004 to discuss the need for such an increase.

### **Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

# Charter Township of Harrison, Michigan

## Statement of Net Assets December 31, 2003

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 2)	\$ 4,568,769	\$ 4,389,784	\$ 8,958,553	\$ 11,846
Receivables:				
Taxes	1,005,032	-	1,005,032	-
Customers - Net of allowance of \$12,295	109,033	948,904	1,057,937	-
Special assessments	3,759,035	-	3,759,035	-
Accrued interest	1,505	4,203	5,708	-
Other	630,237	353,649	983,886	-
Internal balances	(250,000)	250,000	-	-
Inventories	-	106,644	106,644	-
Prepaid costs and other assets	144,378	43,839	188,217	-
Capital assets not being depreciated (Note 4)	1,690,781	3,650,092	5,340,873	-
Capital assets being depreciated - Net (Note 4)	2,080,839	18,417,611	20,498,450	-
<b>Total assets</b>	<b>13,739,609</b>	<b>28,164,726</b>	<b>41,904,335</b>	<b>11,846</b>
<b>Liabilities</b>				
Accounts payable	348,176	843,729	1,191,905	-
Retainage payable	30,417	222,583	253,000	-
Accrued and other liabilities	493,329	242,096	735,425	-
Deferred revenue (Note 3)	5,279,153	-	5,279,153	-
Noncurrent liabilities (Note 6):				
Due within one year	268,831	-	268,831	-
Due in more than one year	2,357,716	-	2,357,716	-
<b>Total liabilities</b>	<b>8,777,622</b>	<b>1,308,408</b>	<b>10,086,030</b>	<b>-</b>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	1,939,620	22,067,703	24,007,323	-
Restricted:				
Debt service	547,827	-	547,827	-
Capital projects	881,728	-	881,728	-
Public safety	797,846	-	797,846	-
Community development	64,885	-	64,885	-
Unrestricted	730,081	4,788,615	5,518,696	11,846
<b>Total net assets</b>	<b>\$ 4,961,987</b>	<b>\$ 26,856,318</b>	<b>\$ 31,818,305</b>	<b>\$ 11,846</b>

# Charter Township of Harrison, Michigan

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 2,396,263	\$ 224,421	\$ 3,125	\$ 270,352
Public safety	6,178,308	740,657	1,500	-
Public works	41,488	-	-	-
Community and economic development	118,981	-	175,150	-
Recreation and culture	90,628	-	-	-
Interest on long-term debt	79,191	-	-	-
Total governmental activities	8,904,859	965,078	179,775	270,352
Business-type activity - Water and sewer	5,409,931	5,072,899	513,407	1,216,374
Total primary government	<u>\$ 14,314,790</u>	<u>\$ 6,037,977</u>	<u>\$ 693,182</u>	<u>\$ 1,486,726</u>
Component unit - Economic Development Corporation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets</b> - Beginning of year - As restated in Note I				
<b>Net Assets</b> - End of year				

**Statement of Activities**  
**Year Ended December 31, 2003**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (1,898,365)	\$ -	\$ (1,898,365)	\$ -
(5,436,151)	-	(5,436,151)	-
(41,488)	-	(41,488)	-
56,169	-	56,169	-
(90,628)	-	(90,628)	-
(79,191)	-	(79,191)	-
(7,489,654)	-	(7,489,654)	-
-	1,392,749	1,392,749	-
(7,489,654)	1,392,749	(6,096,905)	-
-	-	-	-
4,651,718	-	4,651,718	-
2,068,672	-	2,068,672	-
125,387	58,919	184,306	73
254,833	-	254,833	-
65,845	65,180	131,025	-
7,166,455	124,099	7,290,554	73
(323,199)	1,516,848	1,193,649	73
5,285,186	25,339,470	30,624,656	11,773
<u>\$ 4,961,987</u>	<u>\$ 26,856,318</u>	<u>\$ 31,818,305</u>	<u>\$ 11,846</u>

# Charter Township of Harrison, Michigan

## Governmental Funds Balance Sheet December 31, 2003

	Major Special Revenue Funds			Major Capital Project Fund		
	General	Fire Fund	Police Fund	Building and Site	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and investments (Note 2)	\$ 1,330,593	\$ 1,687,221	\$ 144,018	\$ 487,009	\$ 919,928	\$ 4,568,769
Receivables:						
Taxes	427,683	-	577,349	-	-	1,005,032
Customers - Net of allowance of \$12,285	-	109,033	-	-	-	109,033
Special assessments	-	3,304,511	-	-	454,524	3,759,035
Accrued interest	350	264	-	-	891	1,505
Other	22,310	-	-	-	-	22,310
Due from other funds (Note 5)	10,577	-	-	-	16,509	27,086
Due from other governmental units	607,927	-	-	-	-	607,927
Prepaid expenses and other assets	9,890	43,376	-	-	91,112	144,378
<b>Total assets</b>	<b>\$ 2,409,330</b>	<b>\$ 5,144,405</b>	<b>\$ 721,367</b>	<b>\$ 487,009</b>	<b>\$ 1,482,964</b>	<b>\$ 10,245,075</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 37,633	\$ 48,080	\$ -	\$ 249,363	\$ 13,100	\$ 348,176
Retainage payable	-	-	-	-	30,417	30,417
Accrued and other liabilities	272,010	182,440	-	-	8,696	463,146
Due to other funds (Note 5)	266,509	-	-	-	10,577	277,086
Deferred revenue	441,747	4,120,078	717,328	-	380,447	5,659,600
<b>Total liabilities</b>	<b>1,017,899</b>	<b>4,350,598</b>	<b>717,328</b>	<b>249,363</b>	<b>443,237</b>	<b>6,778,425</b>
<b>Fund Balances</b>						
Reserved for prepaid expenditures	9,890	43,376	-	-	91,112	144,378
Unreserved - Undesignated	1,381,541	750,431	4,039	237,646	-	2,373,657
Unreserved - Reported in nonmajor funds:						
Special Revenue Funds	-	-	-	-	197,324	197,324
Debt Service Fund	-	-	-	-	578,010	578,010
Capital Projects Fund	-	-	-	-	173,281	173,281
<b>Total fund balances</b>	<b>1,391,431</b>	<b>793,807</b>	<b>4,039</b>	<b>237,646</b>	<b>1,039,727</b>	<b>3,466,650</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,409,330</b>	<b>\$ 5,144,405</b>	<b>\$ 721,367</b>	<b>\$ 487,009</b>	<b>\$ 1,482,964</b>	<b>\$ 10,245,075</b>



# Charter Township of Harrison, Michigan

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## Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets December 31, 2003

<b>Total Fund Balances for Governmental Funds</b>	<b>\$ 3,466,650</b>
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	3,771,620
--	-----------

Special assessment revenues are expected to be collected over several years, and are not available to pay for current year expenditures	380,447
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Long-term liabilities are not due and payable in the current period and are not recorded in the funds	(2,626,547)
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Accrued interest payable is not reported in the funds	<u>(30,183)</u>
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<b>Total Net Assets of Governmental Activities</b>	<b><u>\$ 4,961,987</u></b>
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# Charter Township of Harrison, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2003

	Major Special Revenue Funds			Major Capital Project Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
	General	Fire Fund	Police Fund	Building and Site		
<b>Revenue</b>						
Property taxes	\$ 65,088	\$ 3,957,745	\$ 685,472	\$ -	\$ 76,591	\$ 4,784,896
Licenses and permits	261,156	-	-	-	498,283	759,439
Federal grants	-	-	-	-	74,110	74,110
State-shared revenues	2,071,797	-	-	-	-	2,071,797
Charges for services	-	250,492	-	-	-	250,492
Special assessments	-	-	-	-	137,174	137,174
Interest	38,379	34,404	4,525	11,158	36,921	125,387
Other	429,832	38,960	93	-	101,373	570,258
<b>Total revenue</b>	<b>2,866,252</b>	<b>4,281,601</b>	<b>690,090</b>	<b>11,158</b>	<b>924,452</b>	<b>8,773,553</b>
<b>Expenditures</b>						
Current:						
General government	2,271,448	-	-	-	-	2,271,448
Public safety	71,559	4,552,542	686,447	-	749,627	6,060,175
Public works	72,527	-	-	1,178,409	95,958	1,346,894
Community development	-	-	-	-	118,981	118,981
Recreation and culture	20,009	-	-	-	26,114	46,123
Employee benefits and insurance	46,563	-	-	-	-	46,563
Other	35,662	-	-	-	1,625	37,287
Debt service:						
Principal	-	-	-	-	112,000	112,000
Interest	-	-	-	-	116,886	116,886
<b>Total expenditures</b>	<b>2,517,768</b>	<b>4,552,542</b>	<b>686,447</b>	<b>1,178,409</b>	<b>1,221,191</b>	<b>10,156,357</b>
<b>Excess of Revenue Over (Under)</b>						
<b>Expenditures</b>	<b>348,484</b>	<b>(270,941)</b>	<b>3,643</b>	<b>(1,167,251)</b>	<b>(296,739)</b>	<b>(1,382,804)</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	-	-	-	251,256	251,256
Transfers out	(251,256)	-	-	-	-	(251,256)
<b>Total other financing sources (uses)</b>	<b>(251,256)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>251,256</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>97,228</b>	<b>(270,941)</b>	<b>3,643</b>	<b>(1,167,251)</b>	<b>(45,483)</b>	<b>(1,382,804)</b>
<b>Fund Balances - Beginning of year</b>	<b>1,294,203</b>	<b>1,064,748</b>	<b>396</b>	<b>1,404,897</b>	<b>1,085,210</b>	<b>4,849,454</b>
<b>Fund Balances - End of year</b>	<b>\$ 1,391,431</b>	<b>\$ 793,807</b>	<b>\$ 4,039</b>	<b>\$ 237,646</b>	<b>\$ 1,039,727</b>	<b>\$ 3,466,650</b>

# Charter Township of Harrison, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2003**

**Net Change in Fund Balances - Total Governmental Funds** \$ (1,382,804)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation 1,150,633

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (136,893)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 112,000

Change in accumulated employee sick and vacation pay is recorded when earned in the statement of activities (103,830)

Accrued interest is recorded on debt when incurred in the statement of activities 37,695

**Change in Net Assets of Governmental Activities** \$ (323,199)

# Charter Township of Harrison, Michigan

## Proprietary Fund - Enterprise Fund Statement of Net Assets December 31, 2003

	Water and Sewer Fund
<b>Assets</b>	
Current assets - Cash and cash equivalents (Note 2)	\$ 4,389,784
Receivables:	
Customers	948,904
Accrued interest	4,203
Due from State	353,649
Due from other funds	250,000
Inventories	106,644
Prepaid costs and other assets	43,839
Total current assets	6,097,023
Noncurrent assets:	
Capital assets not being depreciated (Note 4)	3,650,092
Capital assets being depreciated - Net (Note 4)	18,417,611
Total assets	28,164,726
<b>Liabilities</b>	
Accounts payable	843,729
Retainage payable	222,583
Accrued and other liabilities	242,096
Total liabilities	1,308,408
<b>Net Assets</b>	
Invested in capital assets	22,067,703
Unrestricted	4,788,615
Total net assets	<u><u>\$ 26,856,318</u></u>

# Charter Township of Harrison, Michigan

## Proprietary Fund - Enterprise Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2003

	Water and Sewer Fund
<b>Operating Revenue</b>	
Charges for services	\$ 4,748,616
Tap fees	<u>324,283</u>
Total operating revenue	5,072,899
<b>Operating Expenses</b>	
Cost of water produced/purchased	1,036,141
Cost of sewage treatment	1,415,334
Operation and maintenance	682,955
Personnel services	1,382,061
Depreciation	<u>893,440</u>
Total operating expenses	<u>5,409,931</u>
<b>Operating Loss</b>	(337,032)
<b>Nonoperating Revenue</b>	
Investment income	58,919
State grants	513,407
Other	<u>65,180</u>
Total nonoperating revenue	<u>637,506</u>
<b>Income - Before contributions</b>	300,474
<b>Capital Contributions</b>	<u>1,216,374</u>
<b>Change in Net Assets</b>	1,516,848
<b>Net Assets - January 1, 2003 - As restated - Note 1</b>	<u>25,339,470</u>
<b>Net Assets - December 31, 2003</b>	<u><u>\$ 26,856,318</u></u>

# Charter Township of Harrison, Michigan

## Proprietary Fund - Enterprise Fund Statement of Cash Flows Year Ended December 31, 2003

	Water and Sewer Fund
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 4,932,192
Payments to suppliers	(3,005,945)
Payments to employees	(1,355,634)
Net cash provided by operating activities	570,613
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchase of capital assets	(2,205,118)
Receipt of grants for capital purposes	442,449
Other nonoperating revenue	65,180
Capital contributions from connection fees	533,537
Net cash used in capital and related financing activities	(1,163,952)
<b>Cash Flows from Investing Activities - Interest received on investments</b>	60,494
<b>Net Decrease in Cash and Cash Equivalents</b>	(532,845)
<b>Cash and Cash Equivalents - Beginning of year</b>	4,922,629
<b>Cash and Cash Equivalents - End of year</b>	<u><u>\$ 4,389,784</u></u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>	
Operating loss	\$ (337,032)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	893,440
Changes in assets and liabilities:	
Receivables	(140,707)
Prepaid and other assets	(34,829)
Accounts payable	327,966
Deferred revenue	(11,064)
Due to other governmental units	(153,588)
Accrued and other liabilities	26,427
Net cash provided by operating activities	<u><u>\$ 570,613</u></u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended December 31, 2003, the Water and Sewer Fund received \$682,837 of lines donated by developers.

# Charter Township of Harrison, Michigan

## Fiduciary Funds Statement of Net Assets December 31, 2003

	Pension and Other Employee Benefits Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents (Note 2)	\$ 1,042,351	\$ 2,225,497
Investments (Note 2)	22,852,640	-
Receivables:		
Accrued interest	50,302	879
Employer contributions	403,455	-
Total assets	24,348,748	<u><u>\$ 2,226,376</u></u>
<b>Liabilities</b>		
Due to other governmental units	-	\$ 785,203
Cash bonds and deposits	-	1,441,173
Total liabilities	-	<u><u>\$ 2,226,376</u></u>
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<u><u>\$ 24,348,748</u></u>	

# Charter Township of Harrison, Michigan

## **Fiduciary Funds Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Year Ended December 31, 2003**

### **Additions**

#### Investment income:

Interest and dividends	\$ 776,986
Net increase in fair value of investments	2,918,024
Less investment expenses	<u>(69,612)</u>

Net investment income 3,625,398

#### Contributions:

Employer	749,697
Employee	<u>207,533</u>

Total contributions 957,230

Total additions 4,582,628

**Deductions - Benefit payments** 1,283,616

**Net Increase in Net Assets Held in Trust** 3,299,012

### **Net Assets Held in Trust for Pension and Other Employee Benefits**

Beginning of year 21,049,736

End of year \$ 24,348,748



# Charter Township of Harrison, Michigan

## Notes to Financial Statements December 31, 2003

### Note I - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Harrison, Michigan (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Charter Township of Harrison has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Township has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities, including infrastructure assets (storm drains)
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (storm drains) not previously accounted for by the Township as well as assets totaling approximately \$4,500,000 that would previously have been reported in the General Fixed Assets Account Group.
- The governmental activities column includes bonds and other long-term obligations totaling approximately \$2,600,000 previously reported in the General Long-term Debt Account Group.

The Water and Sewer Fund net assets as of December 31, 2002 have been restated as follows:

Water and Sewer Fund net assets as previously reported	\$ 24,576,487
Capitalize land that was reported in the General Fixed Assets Account Group in a prior year	480,292
Grant revenue not reported in a prior year	<u>282,691</u>
Water and Sewer Fund net assets - December 31, 2002 - As restated	<u><u>\$ 25,339,470</u></u>

# Charter Township of Harrison, Michigan

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**Notes to Financial Statements  
December 31, 2003**

## **Note 1 - Summary of Significant Accounting Policies (Continued)**

### **Reporting Entity**

The Township is governed by an elected seven-member Board of Trustees. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Township's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

**Blended Component Units** - The following component units are reported as if they were parts of the primary government in the financial statements.

- a. The Township Building Authority is governed by a board that is appointed by the Board of Trustees. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its sole purpose is to finance and construct the Township's public buildings. The Building Authority was inactive during 2003 and has no assets, liabilities, or general long-term debt.
- b. The Firemen's Pension Fund and the Employees' Retirement System are governed by five-member pension boards that include three individuals chosen by the Board of Trustees. The entities are reported as if they were part of the primary government because of the fiduciary responsibility that the Township retains relative to the operations of the entities.

**Discretely Presented Component Unit** - The Economic Development Corporation is reported within the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the Township. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the Township so as to provide needed services and facilities of such enterprises to the residents of the Township. The Corporation's governing body, which consists of 11 individuals, is selected by the Board of Trustees.

# Charter Township of Harrison, Michigan

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## Notes to Financial Statements December 31, 2003

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# Charter Township of Harrison, Michigan

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## Notes to Financial Statements December 31, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

**General Fund** - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Fire Fund** - The Fire Fund accounts for fire safety and protection services/activities within the Township. Funding is provided primarily through a local property tax levy and a user charge for ambulance services.

**Police Fund** - The Police Fund accounts for public safety and protection services/activities within the Township. Funding is provided primarily through a local tax revenue.

**Building and Site Fund** - The Building and Site Fund accounts for the construction of activities for new Township facilities and is funded primarily through the issuance of long-term debt.

The Township reports the following major Enterprise Fund:

**Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distributions system and sewage and storm water collection system. Funding is provided primarily through user charges.

# Charter Township of Harrison, Michigan

## Notes to Financial Statements December 31, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the Township reports the following fund types:

**Pension and Other Employee Benefits Trust Funds** - The Pension and Other Employee Benefits Trust Funds account for the activities of the Firemen's Pension and the Employees' Retirement System, which accumulate resources for pension benefit payments to qualified employees.

**Agency Funds** - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

# Charter Township of Harrison, Michigan

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## Notes to Financial Statements December 31, 2003

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Property Tax Revenue**

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2003 tax is levied and collectible on December 1, 2003 and is recognized as revenue during the year ending December 31, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2002 taxable valuation of the Township totaled \$773.1 million, on which taxes levied consisted of 3.9770 mills for operating purposes, 2.0859 mills for fire protection services, and .0987 mills for debt service. This resulted in \$3,075,000 for operating, \$1,613,000 for fire protection services, and \$76,300 for debt service. These amounts are recognized in the respective Special Revenue and Debt Service Funds financial statements as tax revenue.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

# Charter Township of Harrison, Michigan

## Notes to Financial Statements December 31, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., storm drains), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Storm drains	50 years
Water and sewer lines and mains	37 to 50 years
Buildings and improvements	10 to 45 years
Machinery and equipment	5 to 20 years

**Compensated Absences** - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Accumulated sick leave is recorded as a current liability in the government-wide and fund-based statements since the Township's policy is to pay half of any amounts accumulated at December 31 in the following year. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

# Charter Township of Harrison, Michigan

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## Notes to Financial Statements December 31, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Township has designated five banks in Macomb County for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in all of the vehicles permitted by State statutory authority as listed above.

The Charter Township of Harrison, Michigan's deposits and investment policies are in accordance with statutory authority.



# Charter Township of Harrison, Michigan

## Notes to Financial Statements December 31, 2003

### Note 2 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 4,568,769	\$ 4,389,784	\$ 3,267,848	\$ 12,226,401	\$ 11,846
Investments	-	-	22,852,640	22,852,640	-
Total	<u>\$ 4,568,769</u>	<u>\$ 4,389,784</u>	<u>\$ 26,120,488</u>	<u>\$ 35,079,041</u>	<u>\$ 11,846</u>

The breakdown between deposits and investments for the Township is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 8,694,764	\$ 11,846
Investments in securities, mutual funds, and similar vehicles	26,383,167	-
Petty cash or cash on hand	<u>1,110</u>	<u>-</u>
Total	<u>\$ 35,079,041</u>	<u>\$ 11,846</u>

### Deposits

The bank balance of the Township's deposits is \$8,850,195, of which \$558,875 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units' deposits had a bank balance of \$11,846, all of which was covered by federal depository insurance.

# Charter Township of Harrison, Michigan

## Notes to Financial Statements December 31, 2003

### Note 2 - Deposits and Investments (Continued)

#### Investments

The Firemen's Pension and Employee Retirement System Trusts are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the Township or its agent in the Township's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Township's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

At year end, the Township's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
U.S. government securities	\$ 1,380,741	\$ -	\$ -	\$ 1,380,741
Corporate bonds and notes	4,005,588	-	-	4,005,588
Common stock	5,831,210	-	-	5,831,210
Unit investment trusts	764,362	-	-	764,362
Subtotal	<u>\$ 11,981,901</u>	<u>\$ -</u>	<u>\$ -</u>	11,981,901
Investments not subject to categorization:				
Bank investment pool funds				3,530,527
Mutual funds				<u>10,870,739</u>
Total primary government				<u>\$ 26,383,167</u>

# Charter Township of Harrison, Michigan

## Notes to Financial Statements December 31, 2003

### Note 2 - Deposits and Investments (Continued)

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

Included in the Township's fiduciary fund investments at December 31, 2003 are approximately \$823,000 of securities issued by the Governmental National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC). The GNMA investments are backed by the full faith and credit of the U.S. government, whereas the FNMA and FHLMC investments are backed only by the applicable government agency. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty reinvesting the prepaid amounts in investments with comparable yields.

### Note 3 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 380,447	\$ -
Property taxes levied December 1, 2003 that are budgeted and available for operations in 2004	-	5,279,153
Total	\$ 380,447	\$ 5,279,153

# Charter Township of Harrison, Michigan

## Notes to Financial Statements December 31, 2003

### Note 4 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance January 1, 2003	Additions	Disposals and Adjustments	Balance December 31, 2003
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 430,492	\$ 210,000	\$ -	\$ 640,492
Construction in progress	81,880	968,409	-	1,050,289
Subtotal	512,372	1,178,409	-	1,690,781
Capital assets being depreciated:				
Buildings and improvements	1,397,846	13,496	-	1,411,342
Machinery and equipment	2,611,905	213,468	-	2,825,373
Infrastructure - Storm drains	691,193	-	-	691,193
Subtotal	4,700,944	226,964	-	4,927,908
Accumulated depreciation:				
Buildings and improvements	535,228	47,734	-	582,962
Machinery and equipment	1,944,599	193,182	-	2,137,781
Infrastructure - Storm drains	112,502	13,824	-	126,326
Subtotal	2,592,329	254,740	-	2,847,069
Net capital assets being depreciated	2,108,615	(27,776)	-	2,080,839
Net capital assets	<u>\$ 2,620,987</u>	<u>\$ 1,150,633</u>	<u>\$ -</u>	<u>\$ 3,771,620</u>

# Charter Township of Harrison, Michigan

## Notes to Financial Statements December 31, 2003

### Note 4 - Capital Assets (Continued)

	Balance January 1, 2003 (as restated)	Reclassifications	Additions	Disposals and Adjustments	Balance December 31, 2003
<b>Business-type Activities</b>					
Capital assets not being depreciated:					
Land	\$ 504,292	\$ -	\$ -	\$ -	\$ 504,292
Construction in progress	1,694,729	(690,372)	2,141,443	-	3,145,800
Subtotal	2,199,021	(690,372)	2,141,443	-	3,650,092
Capital assets being depreciated:					
Buildings and improvements	643,677	-	-	1,818	641,859
Machinery and equipment	2,268,714	-	11,879	-	2,280,593
Water and sewer lines and mains	29,082,536	690,372	792,694	2,099	30,563,503
Subtotal	31,994,927	690,372	804,573	3,917	33,485,955
Accumulated depreciation:					
Buildings and improvements	254,607	-	16,269	1,818	269,058
Machinery and equipment	1,188,404	-	245,870	-	1,434,274
Water and sewer lines and mains	12,733,642	-	632,813	1,443	13,365,012
Subtotal	14,176,653	-	894,952	3,261	15,068,344
Net capital assets being depreciated	17,818,274	690,372	(90,379)	656	18,417,611
Net capital assets	\$ 20,017,295	\$ -	\$ 2,051,064	\$ 656	\$ 22,067,703

# Charter Township of Harrison, Michigan

## Notes to Financial Statements December 31, 2003

### Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 73,147
Public safety	165,475
Recreation and culture	<u>16,118</u>
Total governmental activities	<u>\$ 254,740</u>

**Construction Commitments** - The Township has active construction projects at year end. The projects include the new fire station and various sewer improvement projects. At year end, the Township's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Fire station	\$ 1,260,151	\$ 349,848
Sewer improvements	<u>2,581,065</u>	<u>1,535,189</u>
Total	<u>\$ 3,841,216</u>	<u>\$ 1,885,037</u>

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Due to/from Other Funds</b>		
General Fund	Other governmental funds	\$ 10,577
Water and Sewer Fund	General Fund	250,000
Other governmental funds	General Fund	<u>16,509</u>
Total		<u>\$ 277,086</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

# Charter Township of Harrison, Michigan

## Notes to Financial Statements December 31, 2003

### Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 251,256

The transfer from the General Fund to the other governmental funds represents the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations.

### Note 6 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

Long-term obligation activity can be summarized as follows:

	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>							
General obligation bonds:							
2002 Fire Station Unlimited Tax General Obligation Bonds	4.50% - 5.20%	\$0 - \$100,000					
Amounts of issue: \$995,000							
Maturing through March 1, 2017			\$ 995,000	\$ -	\$ -	\$ 995,000	\$ 25,000
Special assessment bonds:							
1995 Paving District No. 196 Limited Tax Bonds	4.00% - 5.30%	\$4,000 - \$8,000					
Amounts of issue: \$70,000							
Maturing through February 1, 2004			14,000	-	(7,000)	7,000	7,000
1998 Paving District No. 199, 200, and 201 Limited Tax Bonds	4.30% - 6.00%	\$35,000 - \$55,000					
Amounts of issue: \$515,000							
Maturing through July 1, 1998			320,000	-	(55,000)	265,000	55,000
2001 Paving District No. 202 Limited Tax Bonds	3.80% - 4.70%	\$10,000 - \$25,000					
Amounts of issue \$205,000							
Maturing through: February 1, 2011			195,000	-	(25,000)	170,000	25,000
2002 Paving District No. 203 Limited Tax Bonds	3.75% - 6.75%	\$25,000 \$45,000					
Amounts of issue: \$420,000							
Maturing through February 1, 2012			420,000	-	(25,000)	395,000	45,000
Other long-term obligations - Compensated absences			690,717	103,830	-	794,547	111,831
Total governmental activities			\$ 2,634,717	\$ 103,830	\$ (112,000)	\$ 2,626,547	\$ 268,831

# Charter Township of Harrison, Michigan

## Notes to Financial Statements December 31, 2003

### Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2004	\$ 152,000	\$ 80,067	\$ 232,067
2005	170,000	73,179	243,179
2006	170,000	65,947	235,947
2007	170,000	58,651	228,651
2008	170,000	51,269	221,269
2009-2013	605,000	163,504	768,504
2014-2018	395,000	41,100	436,100
Total	<u>\$ 1,832,000</u>	<u>\$ 533,717</u>	<u>\$ 2,365,717</u>

### Note 7 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits, participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and the Michigan Townships Participating Plan for general liability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.



# Charter Township of Harrison, Michigan

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**Notes to Financial Statements  
December 31, 2003**

## **Note 8 - Defined Benefit Pension Plan**

### **Plan Description**

**Employees' Retirement System** - The Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the Charter Township of Harrison Employees' Retirement System Pension Board. This plan covers substantially all full-time employees (except firemen) of the Township. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 38151 L'Anse Creuse Road, Harrison Township, MI 48045.

**Firemen's Pension Fund** - The Firemen's Pension Fund is a single-employer defined benefit pension plan that is administered by the Charter Township of Harrison Firemen's Pension Board. This plan covers substantially all full-time employees of the Charter Township of Harrison fire department. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 38151 L'Anse Creuse Road, Harrison Township, MI 48045.

### **Funding Policy**

**Employees' Retirement System** - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's competitive bargaining units and requires a contribution from the employees of 5 percent of gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates; the current rate is 15.90 percent of covered payroll.

**Firemen's Pension Fund** - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's competitive bargaining units and requires a contribution from the employees of 5 percent of gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates; the current rate is 21.59 percent of covered payroll.

# Charter Township of Harrison, Michigan

## Notes to Financial Statements December 31, 2003

### Note 8 - Defined Benefit Pension Plan (Continued)

#### Annual Pension Cost

**Employees' Retirement System** - For the year ended December 31, 2003, the Township's annual pension cost of \$312,506 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry actual age cost method. Significant actuarial assumptions include (a) a 7 percent investment rate of return, (b) projected salary increases of 5 percent to 8.8 percent per year, and (c) cost of living adjustments for supervisory employees of 10 percent after 5 and 10 years. Both (a) and (b) include an inflation component of 5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 29 years.

**Firemen's Pension Fund** - For the year ended December 31, 2003, the Township's annual pension cost of \$437,191 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry actual age cost method. Significant actuarial assumptions include (a) a 7.5 percent investment rate of return and (b) projected salary increases of 5.7 percent to 9.3 percent per year. Both (a) and (b) include an inflation component of 5.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 14 years.

#### Reserves

**Employees' Retirement System** - As of December 31, 2003, the plan's required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 1,663,055
Reserve for employer's contributions	1,285,787
Reserve for retired benefit payments	8,035,539

# Charter Township of Harrison, Michigan

## Notes to Financial Statements December 31, 2003

### Note 8 - Defined Benefit Pension Plan (Continued)

**Firemen's Pension Fund** - As of December 31, 2003, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 1,369,006
Reserve for employer's contributions	5,664,087
Reserve for retired benefit payments	6,331,274

#### Three-year Trend Information

	Fiscal Year Ended December 31		
	2001	2002	2003
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 370,395	\$ 437,514	\$ 312,506
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ 345,071	\$ 429,662	\$ 437,191
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

### Note 9 - Postemployment Benefits

The Township provides health care and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 52 retirees are eligible. The Township includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participants who retired prior to January 4, 1996. Contributions for participants who retire after January 3, 1996 will be funded by the Township based on years of service as follows: 10 years and under - 25 percent; 11 years through 15 years - 50 percent; over 15 years - 100 percent. The Township purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care and life insurance benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$523,000.

## **Required Supplemental Information**

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# Charter Township of Harrison, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 339,939	\$ 55,601	\$ 65,088	\$ 9,487
Licenses and permits	251,600	251,868	261,156	9,288
State sources	2,355,665	2,094,085	2,071,797	(22,288)
Interest income	125,000	18,000	38,379	20,379
Other	412,585	427,269	429,832	2,563
Total revenue	3,484,789	2,846,823	2,866,252	19,429
<b>Expenditures</b>				
General government:				
Administration	375,590	308,480	242,808	65,672
Township Board	41,520	38,220	36,792	1,428
Supervisor	135,790	126,490	119,331	7,159
Elections	76,691	94,661	81,580	13,081
Assessor	482,895	488,035	467,906	20,129
Attorney	125,000	153,800	145,607	8,193
Clerk	198,695	188,139	184,111	4,028
Accounting	309,545	322,279	310,464	11,815
Cable television committee	57,695	1,400	1,209	191
Zoning Board of Appeals	74,122	72,665	64,199	8,466
Treasurer	395,941	387,049	366,757	20,292
Data processing	12,800	3,385	3,825	(440)
Grounds, hall, and equipment	285,470	277,674	246,860	30,814
Public safety - Planning	91,272	82,385	71,559	10,826
Public works:				
Engineering	55,000	45,000	21,854	23,146
Highways and streets	56,000	39,125	27,664	11,461
Drainage	62,000	40,000	23,009	16,991
Health and welfare - Federal programs	2,500	-	-	-
Recreation and culture:				
Parks	-	28,786	19,886	8,900
Beautification Commission	400	300	122	178
Employee benefits and insurance:				
Property insurance	30,500	43,393	41,164	2,229
Workers' compensation insurance	18,900	10,800	5,399	5,401
Other expenses	90,196	82,588	35,662	46,926
Transfers to other funds	506,267	279,979	251,256	28,723
Total expenditures	3,484,789	3,114,633	2,769,024	345,609
<b>Net Change in Fund Balance</b>	-	(267,810)	97,228	365,038
<b>Fund Balance - Beginning of year</b>	1,294,203	1,294,203	1,294,203	-
<b>Fund Balance - End of year</b>	<u>\$ 1,294,203</u>	<u>\$ 1,026,393</u>	<u>\$ 1,391,431</u>	<u>\$ 365,038</u>

# Charter Township of Harrison, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Fire Fund Year Ended December 31, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 3,999,992	\$ 3,957,745	\$ 3,957,745	\$ -
Charges for services	220,000	210,000	250,492	40,492
Interest income	80,000	37,376	34,404	(2,972)
Other	9,000	50,027	38,960	(11,067)
Total revenue	4,308,992	4,255,148	4,281,601	26,453
<b>Expenditures - Public safety</b>	4,308,992	4,255,148	4,552,542	(297,394)
<b>Net Change in Fund Balance</b>	-	-	(270,941)	(270,941)
<b>Fund Balance - Beginning of year</b>	1,064,748	1,064,748	1,064,748	-
<b>Fund Balance - End of year</b>	<u>\$ 1,064,748</u>	<u>\$ 1,064,748</u>	<u>\$ 793,807</u>	<u>\$ (270,941)</u>

# Charter Township of Harrison, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Police Fund Year Ended December 31, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 1,080,856	\$ 682,093	\$ 685,472	\$ 3,379
Interest income	12,000	4,400	4,618	218
Total revenue	1,092,856	686,493	690,090	3,597
<b>Expenditures - Public safety</b>	1,092,856	686,493	686,447	46
<b>Net Change in Fund Balance</b>	-	-	3,643	3,643
<b>Fund Balance - Beginning of year</b>	396	396	396	-
<b>Fund Balance - End of year</b>	<u>\$ 396</u>	<u>\$ 396</u>	<u>\$ 4,039</u>	<u>\$ 3,643</u>

# Charter Township of Harrison, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress December 31, 2003

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
<b>Employees' Retirement System</b>						
12/31/97	\$ 8,074,564	\$ 8,535,356	\$ 460,792	94.6	\$ 1,780,542	25.9
12/31/98	8,901,842	9,334,519	432,677	95.4	2,001,643	21.6
12/31/99	9,508,833	10,065,818	556,985	94.5	2,076,516	26.8
12/31/00	10,086,683	10,584,130	497,447	95.3	2,129,790	23.4
12/31/01	10,603,709	11,437,172	833,463	92.7	2,271,123	36.7
12/31/02	10,851,905	12,188,641	1,336,736	89.0	2,544,024	52.5
<b>Fire Pension Fund</b>						
12/31/97	9,466,672	10,492,317	1,025,645	90.2	1,450,888	70.7
12/31/98	10,305,241	10,714,962	409,721	96.2	1,482,110	27.6
12/31/99	11,111,722	11,091,891	(19,831)	100.2	1,636,166	-
12/31/00	11,916,284	12,028,593	112,309	99.1	1,828,011	6.1
12/31/01	12,483,861	12,291,086	(192,775)	101.6	1,678,054	-
12/31/02	12,816,039	12,921,489	105,450	99.2	1,949,550	5.4



# Charter Township of Harrison, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress (Continued) December 31, 2003

The schedule of employer contributions is as follows:

### Employees' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
12/31/98	12/31/97	\$ 302,880	100.0
12/31/99	12/31/98	315,935	100.0
12/31/00	12/31/99	329,489	100.0
12/31/01	12/31/00	370,395	100.0
12/31/02	12/31/01	437,514	100.0
12/31/03	12/31/02	312,506	100.0

### Fire Pension Fund

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
12/31/98	12/31/97	\$ 360,499	100.0
12/31/99	12/31/98	380,264	100.0
12/31/00	12/31/99	362,451	100.0
12/31/01	12/31/00	345,071	100.0
12/31/02	12/31/01	429,662	100.0
12/31/03	12/31/02	437,191	100.0

\* The required contribution is expressed to the Township as a percentage of payroll.

# Charter Township of Harrison, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress (Continued) December 31, 2003

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2002, the latest actuarial valuation date, follows:

### **Employees' Retirement System**

Actuarial cost method	Entry age
Amortization method	Level percent, closed
Remaining amortization period	29 years
Asset valuation method	Open 4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases*	5.0% - 8.8%
*Includes inflation at	5.0%
Cost of living adjustments:	
AFSCME	None
Supervisory	10% after 5 years; 10% after 10 years

### **Fire Pension Fund**

Actuarial cost method	Entry age
Amortization method	Level percent, closed
Remaining amortization period	14 years
Asset valuation method	Open 4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	5.7% - 9.3%
*Includes inflation at	5.5%
Cost of living adjustments	None

# Charter Township of Harrison, Michigan

## Note to Required Supplemental Information December 31, 2003

### Note - Budgetary Information

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as an "other financing sources (uses)." All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the fund level and is the level of classification detail at which expenditures may not legally exceed appropriations.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Charter Township of Harrison, Michigan incurred expenditures that were in excess of the amounts budgeted, as follows:

	Amended Budget	Actual
Fire Fund - Public safety	\$ 4,255,148	\$ 4,552,542

The unfavorable variance was caused by unanticipated expenditures that became necessary during the year.

## **Other Supplemental Information**

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# Charter Township of Harrison, Michigan

	Nonmajor Special Revenue Funds				
	Grant	Parks and Recreation	Building Inspections	General	Firemen's Sick
				Employees Sick and Annual Leave	and Annual Leave
<b>Assets</b>					
Cash and investments	\$ 67,102	\$ 19,298	\$ 251	\$ 3,148	\$ 110,516
Receivables:					
Special assessments	-	-	-	-	-
Accrued interest	11	9	-	3	223
Due from other funds	-	-	16,509	-	-
Prepaid costs and other assets	337	-	421	-	-
Total assets	<u>\$ 67,450</u>	<u>\$ 19,307</u>	<u>\$ 17,181</u>	<u>\$ 3,151</u>	<u>\$ 110,739</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 1,832	\$ -	\$ 9,218	\$ -	\$ -
Retainage payable	-	-	-	-	-
Accrued and other liabilities	733	-	7,963	-	-
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	2,565	-	17,181	-	-
<b>Fund Balances</b>					
Reserved for prepaid expenditures	337	-	421	-	-
Unreserved	64,548	19,307	(421)	3,151	110,739
Total fund balances	64,885	19,307	-	3,151	110,739
Total liabilities and fund balances	<u>\$ 67,450</u>	<u>\$ 19,307</u>	<u>\$ 17,181</u>	<u>\$ 3,151</u>	<u>\$ 110,739</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2003**

Nonmajor Debt Service			
Fund	Nonmajor Capital Projects Fund		
	Special	Special	Total Nonmajor
Debt Service	Assessments	Assessments	Governmental
Fund	Capital Projects	Revolving	Funds
\$ 503,400	\$ 216,213	\$ -	\$ 919,928
454,524	-	-	454,524
533	112	-	891
-	-	-	16,509
-	-	90,354	91,112
<u>\$ 958,457</u>	<u>\$ 216,325</u>	<u>\$ 90,354</u>	<u>\$ 1,482,964</u>
\$ -	\$ 451	\$ 1,599	\$ 13,100
-	30,417	-	30,417
-	-	-	8,696
-	-	10,577	10,577
380,447	-	-	380,447
380,447	30,868	12,176	443,237
-	-	90,354	91,112
578,010	185,457	(12,176)	948,615
578,010	185,457	78,178	1,039,727
<u>\$ 958,457</u>	<u>\$ 216,325</u>	<u>\$ 90,354</u>	<u>\$ 1,482,964</u>

# Charter Township of Harrison, Michigan

	Nonmajor Special Revenue Funds				
				General	
				Employees Sick	Firemen's Sick
	Grant	Parks and Recreation	Building Inspections	and Annual Leave	and Annual Leave
<b>Revenue</b>					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	498,283	-	-
Federal sources	74,110	-	-	-	-
Interest income	450	329	88	44	1,582
Special assessments	-	-	-	-	-
Other	101,373	-	-	-	-
Total revenue	175,933	329	498,371	44	1,582
<b>Expenditures</b>					
Public safety	-	-	749,627	-	-
Community development	118,981	-	-	-	-
Parks and recreation	-	26,114	-	-	-
Capital projects	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Other	-	-	-	-	-
Total expenditures	118,981	26,114	749,627	-	-
<b>Excess of Revenue Over (Under) Expenditures</b>	56,952	(25,785)	(251,256)	44	1,582
<b>Other Financing Sources - Transfers in</b>	-	-	251,256	-	-
<b>Net Change in Fund Balances</b>	56,952	(25,785)	-	44	1,582
<b>Fund Balances - Beginning of year</b>	7,933	45,092	-	3,107	109,157
<b>Fund Balances - End of year</b>	<u>\$ 64,885</u>	<u>\$ 19,307</u>	<u>\$ -</u>	<u>\$ 3,151</u>	<u>\$ 110,739</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended December 31, 2003**

Nonmajor Debt Service			
Fund	Nonmajor Capital Projects Fund		
	Special	Special	Total Nonmajor
Debt Service	Assessment	Assessment	Governmental
Fund	Capital Projects	Revolving	Funds
\$ 76,591	\$ -	\$ -	\$ 76,591
-	-	-	498,283
-	-	-	74,110
31,388	3,040	-	36,921
137,174	-	-	137,174
-	-	-	101,373
245,153	3,040	-	924,452
-	-	-	749,627
-	-	-	118,981
-	-	-	26,114
-	95,958	-	95,958
112,000	-	-	112,000
116,886	-	-	116,886
1,625	-	-	1,625
230,511	95,958	-	1,221,191
14,642	(92,918)	-	(296,739)
-	-	-	251,256
14,642	(92,918)	-	(45,483)
563,368	278,375	78,178	1,085,210
<b>\$ 578,010</b>	<b>\$ 185,457</b>	<b>\$ 78,178</b>	<b>\$ 1,039,727</b>



# Charter Township of Harrison, Michigan

## Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds December 31, 2003

	Pension and Other Employee Benefit Trust Funds			Agency Funds		
	Firemen's Pension Trust	Employees' Retirement System Trust	Totals	Tax Receiving	Trust and Agency	Totals
<b>Assets</b>						
Cash and cash equivalents	\$ 83,362	\$ 958,989	\$ 1,042,351	\$ 763,500	\$ 1,461,997	\$ 2,225,497
Investments	13,253,807	9,598,833	22,852,640	-	-	-
Receivables:						
Accrued interest	8,743	41,559	50,302	-	879	879
Employer contributions	18,455	385,000	403,455	-	-	-
Total assets	13,364,367	10,984,381	24,348,748	<u>\$ 763,500</u>	<u>\$ 1,462,876</u>	<u>\$ 2,226,376</u>
<b>Liabilities and Net Assets</b>						
<b>Liabilities</b>						
Due to other governmental units	-	-	-	\$ 763,500	\$ 21,703	\$ 785,203
Cash bonds and deposits	-	-	-	-	1,441,173	1,441,173
Total liabilities	-	-	-	<u>\$ 763,500</u>	<u>\$ 1,462,876</u>	<u>\$ 2,226,376</u>
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<u>\$ 13,364,367</u>	<u>\$ 10,984,381</u>	<u>\$ 24,348,748</u>			

# Charter Township of Harrison, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds - Pension and Other Employee Benefit Trust Funds Year Ended December 31, 2003

	Firemen's Pension Trust	Employees' Retirement System Trust	Totals
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 483,331	\$ 293,655	\$ 776,986
Net increase in fair value of investments	1,537,742	1,380,282	2,918,024
Less investment expenses	<u>(287)</u>	<u>(69,325)</u>	<u>(69,612)</u>
Net investment income	2,020,786	1,604,612	3,625,398
Contributions:			
Employer	437,191	312,506	749,697
Employees	<u>100,387</u>	<u>107,146</u>	<u>207,533</u>
Total contributions	<u>537,578</u>	<u>419,652</u>	<u>957,230</u>
Total additions	2,558,364	2,024,264	4,582,628
<b>Deductions - Benefit payments</b>	<u>642,574</u>	<u>641,042</u>	<u>1,283,616</u>
<b>Net Increase in Net Assets</b>	1,915,790	1,383,222	3,299,012
<b>Net Assets Held in Trust for Pension Benefits</b>			
Beginning of year	<u>11,448,577</u>	<u>9,601,159</u>	<u>21,049,736</u>
End of year	<u><b>\$ 13,364,367</b></u>	<u><b>\$ 10,984,381</b></u>	<u><b>\$ 24,348,748</b></u>

May 14, 2004

Board of Trustees  
Charter Township of Harrison  
38151 L'Anse Creuse Road  
Harrison Township, MI 48045

Dear Board Members:

We recently completed our audit of the financial statements of the Charter Township of Harrison for the year ended December 31, 2003. In addition to the audit report, we offer following comments and recommendations for your review and consideration:

#### **NEW FINANCIAL STATEMENT FORMAT (GASB 34)**

As you are aware, Governmental Accounting Standards Board (GASB) Statement No. 34 was implemented for the Township's 2003 fiscal year. GASB 34 has dramatically changed the look and feel of the financial statements. While the financial statements retain an element of familiarity with the continued reporting of fund based information, there are several additions and changes that provide information never before presented in the Township's annual financial report. A brief summary of the changes are as follows:

- Management Discussion and Analysis (MD&A): The MD&A provides a high-level overview of the Township's financial position and results of operations, with a focus on the government-wide financial statements.
- Government-Wide Financial Statements: These additional statements adjust the normal fund-based statements into a combined, full-accrual format (similar to for-profit commercial enterprises). This allows a financial statement reader to see the Township from a longer term, economic perspective (i.e., are today's taxpayers paying for today's services?). These statements show capital assets as well as long term debt as part of the Township's overall financial picture.
- Focus on Major Funds: The fund based financial statements now focus on the Township's most significant funds (designated as "major funds"). For 2003, the Township's major governmental funds are the General Fund, the Fire Fund, the Police Fund, and the Building and Site Fund; the Township's sole enterprise fund, the Water and Sewer Fund, is also considered to be a major fund.
- Budget Comparison: A financial statement reader will now be able to view not only the actual revenues and expenditures for the Township's General Fund and major special revenue funds as compared to the current budget, but also as compared to the original budget.

Capital assets, including infrastructure, play a significant part of the new financial statements. The accumulation of this information required significant investment of the Township's

resources, both financial and non-financial, primarily in the form of a physical appraisal performed by an outside party with the assistance of Township personnel. The detailed asset information obtained will most likely also be useful for insurance and asset control purposes. Currently, this detail is being maintained in a spreadsheet program, which may be more susceptible to undetected errors (i.e., over-depreciating assets, formula errors, etc.). For this reason, we recommend that the data be transferred into a software program specifically designed to account for fixed assets, which includes tracking the depreciation of those assets. It is our understanding that the Township has begun the process of updating and developing capital asset records in an appropriate software program suited to this purpose.

### **FINANCIAL CONDITION AT DECEMBER 31, 2003**

During the year ended December 31, 2003, the fund balance of the General Fund increased \$99,580 to a final balance of \$1,393,783. This overall increase in fund balance came as a result of strict monitoring of expenditures throughout the year in response to the reduction of multiple revenue sources. The reduction in state shared revenue and interest rates continues to intensify the challenges faced by the Township. Currently, many municipalities need to analyze several of their processes to determine the necessity of such processes or if such processes could be performed more efficiently. The elimination of certain manual processes and better leveraging of the use of technology are vital in government service. With the implementation of a new computer system in fiscal years 2003 and 2004, Harrison Township responded to many of these needs. However, continued vigilance and dedication is necessary to ensure that the increased efficiencies will translate into financial savings by the Township.

### **Internal Control and Fraud Prevention**

Designing and maintaining a sound system of internal controls over Township assets, as well as fraud prevention and detection, are on the forefront in today's business environment. As part of our audit of the Township's 2003 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with certain members of the Board of Trustees, management and other employees throughout the municipality; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures. We are pleased to report that no significant fraud risk factors or instances of fraud were identified as a result of our procedures.

As part of the Township's process of continuous improvement, we noted the following internal control matter that we would like to bring to your attention for consideration. The general ledger software used by the Township can be accessed with an administrative user ID for which multiple staff have the password. This user ID could be used to post journal entries, in which case the originator of the entry could not be identified with certainty. While it is necessary to have such an ID for the software vendor to be able to access the system and to apply software updates, an important aspect of internal control is being able to identify the individual responsible for each entry posted to the Township's records. We recommend that this ID not be used for the posting of entries or any other manipulation of data and that the password to this ID be controlled by a limited number of individuals.

## **ACCOUNTING AND ADMINISTRATIVE MATTERS**

- During our balance sheet testing, we noted individual accounts receivable balances from residents and various accrued liabilities for which the balance has not changed in two or more years. Though these accounts have insignificant balances, if it is not likely that the Township will collect or be required to pay these amounts, we recommend that such balances be adjusted accordingly.
- In reviewing the Township's Board of Trustees meeting minutes, we noted one instance in which numeric data included in the minutes varied from the original documents that were presented and discussed by the Board. We recommend a thorough review be performed of all quantitative information included in the minutes to ensure clerical errors are corrected and that the meeting minutes are in agreement with the facts and circumstances of decisions made by the Board.
- As of December 31, 2003, there were multiple individuals employed by the Township who had accumulated vacation time in excess of the limits stipulated by their respective contracts. The Township's practice has been to compensate individuals for their entire vacation bank at the time of separation from service, including the amounts that exceed the limit expressed in employee's contract. Additionally, it is the Township's practice to pay individuals a pro-rata portion of their longevity pay for the year when they separate from employment before their anniversary date (the date on which the pay is considered earned for that year). We recommend that the Township follow the vacation accumulation and longevity pay policies as outlined in the various employment contracts or that the limits and requirements be adjusted in future contracts to reflect the intentions of the Township.

## **REVENUE SHARING ESTIMATES**

As you are aware, the slowdown in the State's economy continues to directly impacting revenue sharing payments. State shared revenue accounts for approximately 73 percent of the Township's General Fund revenues. Though the State's sales tax collections (the sole source of revenue sharing payments to local units of government) have been near what was expected, the State continues to experience budget problems as a result of disappointing collections of State income tax and single business tax. As a result, revenue sharing payments for the State's fiscal year ending September 30, 2004, are expected to be less than originally projected.

As has been well publicized, the State passed several revenue sharing reductions for the State's fiscal year ended September 30, 2004. The net effect of these cuts (statewide) results in approximately 3% less in 2003-2004 than in the prior year, despite an overall slight increase in sales tax collections. For the time being, local government has been spared additional revenue sharing cuts for fiscal year 2005, as the governor's proposed September 30, 2005, budget holds the state revenue sharing payments at the reduced 2003/2004 levels. However, this is closely tied to an increase in the State cigarette tax.

We recommend that the Township continue to evaluate the impact of the revenue sharing reductions as you amend your 2004 budget and plan for your 2005 budget. Updated information can be obtained from the Department of Treasury's web site at

<http://www.treas.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at (517) 373-2697. We will continue to update the Township as developments occur.

## **PRE-FUNDING OF RETIREE HEALTH CARE**

As you are aware, the Township provides post-employment benefits to retirees that are funded currently. In general, we feel it is prudent to fund at least a part of these benefits during the period that the related employment occurs, rather than waiting until retirement, when the payments are due.

We recommend that the Township consider establishing a Retiree Health Care Fund to begin to set aside resources to fund these obligations. A fund that is established in accordance with The Public Employee Health Act of 1999 (P.A. 149 of 1999) would allow the Township to invest assets set aside for post-employment benefit obligations in the same investment vehicles as pension funds (e.g., stocks, bonds, etc.). These investments provide a better means of achieving rates of return necessary to fund these long-term liabilities. In order to establish the fund in accordance with P.A. 149 of 1999, the following provisions should be considered:

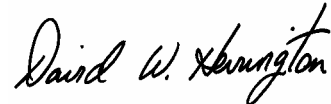
- A separate "Public Employee Health Care Fund" must be established.
- Withdrawals from the fund are restricted solely for the payment of health care benefits and administrative expenses.
- An investment fiduciary must be selected and an investment policy must be enacted.
- Determination must be made of whether the fund will be established on an actuarial basis. If the fund is not established on an actuarial basis, an actuarial study is required every five years.

We would be happy to assist the Township in establishment of such a fund.


We would like to thank the Board for the opportunity to serve as auditors for the Township. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

**PLANTE & MORAN, PLLC**



David W. Herrington



Jenny L. Lorf